Fact Sheet on OMB's Mid-Session Review For Fiscal Year 2002
August 23, 2001

- According to the Administration, there will be a surplus of less than $1 billion in fiscal year 2001, excluding the surplus in the Social Security trust funds. But the Mid-Session Review makes it clear that there only appears to be a surplus because the Administration resorted to a gimmick that reversed 65 years of Social Security accounting practice and increased the reported non-Social Security surplus by $5.6 billion. Under the accepted accounting practice, OMB estimates that there will be a $5 billion "raid" on Social Security in 2001.

- According to OMB, under current policies there will be a "raid" on the Medicare HI Trust Fund in 2001, 2002, 2003, and 2004. (OMB's current policy baseline reflects the tax cut and other legislation already enacted this year but does not include any policies that are assumed in the President's Mid-Session budget or the Congressional budget resolution but have not yet been enacted. The current policy baseline assumes discretionary spending in 2002 through 2011 will be at the level enacted for 2001, adjusted for inflation.)

- OMB's current policy projections show a $15 billion non-Social Security surplus in 2002. But without the Administration-supported gimmick in the tax bill that delayed $28 billion in corporate tax payments for two weeks so they would be counted in fiscal year 2002 (JCT estimated that the delay would shift $33 billion from 2001 into 2002) there would be a $13 billion raid on Social Security in 2002.

- These raids on Medicare and Social Security are projected even under economic assumptions that appear to be somewhat rosy. If real economic growth in 2002 turns out to be less than the Administration assumes (3.2 percent in 2002, 3.5 percent in 2003, and 3.4 percent in 2004; the Blue Chip consensus is for 2.8 percent growth in 2002), the budget situation will be even worse.

- The Administration proposes to use $13 billion of the $15 billion non-Social Security surplus projected for 2002 under current policies to pay for an increase in defense spending above the baseline level. Other policy proposals would cost an additional $1 billion in 2002, lowering OMB's estimate of the non-Social Security surplus under the President's policies to only a little more than $1 billion in 2002.

- The President also proposes tax cuts (over and above those already enacted in the tax bill) that total $314 billion over the next 10 years. He also proposes to increase mandatory spending by $210 billion in that period. Fully $190 billion of that increase is to be devoted to "Medicare Modernization." Although that is more than was assumed in the President's April budget, it is still less than two-thirds of the amount provided for a new Medicare prescription drug benefit and other changes in Medicare in the Republican-drafted budget resolution adopted by the Congress.

- Although the President has said that the Congress must adhere to the fiscal restrictions set in the Republican-drafted budget resolution, his Mid-Session budget includes $300 billion in additional tax cuts and $175 billion in new defense spending that are not reflected in that budget resolution. But the Mid-Session says that funds assumed in the budget resolution for a rewrite of the Freedom to Farm Act and to extend expiring tax credits at least temporarily will have to be offset by spending cuts and that even new spending for natural disasters will have to be paid for.

- The Mid-Session Review states that requiring offsets for new spending not included in the President's budget is "consistent with the requirements of the Budget Enforcement Act" (BEA) pay-as-you-go procedures. It does not point out that the Mid-Session's proposals to cut taxes an additional $300 billion or to increase mandatory spending by $200 billion are not consistent with the pay-as-you-go rules. It certainly does not point out that the tax bill enacted earlier this year was inconsistent with the pay-as-you-go rules. The BEA Sequestration Report printed as Appendix B of the Mid-Session does, however, state clearly that a sequestration will be required in 2002 to pay for the tax bill and other legislation that has already been enacted unless the BEA is amended by the end of this session of Congress. According to OMB, the sequestration is supposed to achieve $127 billion in savings in 2002, but because of restrictions on what programs can be cut, the savings would total $33.3 billion. The Administration has not explained why the law should be changed to forgive these costs, but the law should be strictly applied if a new farm bill or tax extenders bill are enacted.

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